



## A Guide for Employers: Taxing Bonus Payments

An employer needs to deduct PAYE from bonus payments at the employees highest marginal tax rate.

### What is a bonus?

A bonus is usually paid to recognize the performance or services of an employee. It is usually not paid routinely but maybe once or sometimes twice a year.

### How do I work out the amount to deduct?

The way to ensure the correct amount of PAYE is deducted from a bonus payment is to identify the employees expected annual gross earnings and tax the bonus at the correct marginal rate of tax.

### What are the marginal tax rates?

The marginal tax rates are:

Income level	Marginal Tax Rate
\$1 to \$15,000	11%
\$15,001 to \$30,000	23%
\$30,001 to \$60,000	35%
\$60,001 and over	40%

### Example 1

If John earns \$52,280 a year and his employer decides to pay him a bonus of \$100 in December. An employer should:

- Identify John's normal gross annual income,
- Deduct the personal exemption
- Identify the highest marginal rate of tax that applies to John
- Calculate the PAYE to deduct from the bonus payment by applying highest marginal rate of tax

Gross annual income	\$52,280
Less Personal exemption	\$ 30,080
Income subject to tax	\$22,200

The income that is subject to tax is \$22,200. John will pay tax at the rate of 11% on the first \$15,000 and the balance will be taxed at 23%. This means that the bonus payment should also be taxed at 23%.

John's employer should deduct \$23 of PAYE from the \$100 bonus payment.

### Example 2

An employer must take care to consider whether the bonus payment will take the income subject to tax into the next marginal tax bracket.

Henry earns \$59,080 in annual wages.

Gross annual income	\$59,080
Less Personal exemption	\$ 30,080
Income subject to tax	\$29,000

According to the marginal tax rates, the first \$15,000 is taxed at 11%. The remaining \$14,000 is taxed at 23%.

If Henry is paid a bonus of \$2000 this would mean that his taxable income would total \$31,000. With income exceeding \$30,000, Henry would cross over into the next marginal tax bracket.

This would mean that \$1,000 of the bonus would be taxed at 23% and \$1000 at 35%. A total of \$580 of PAYE should be deducted from the \$2000 bonus payment.

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